

Economic Analysis

Weekly Focus: March FOMC Meeting & CPI

Kim Chase

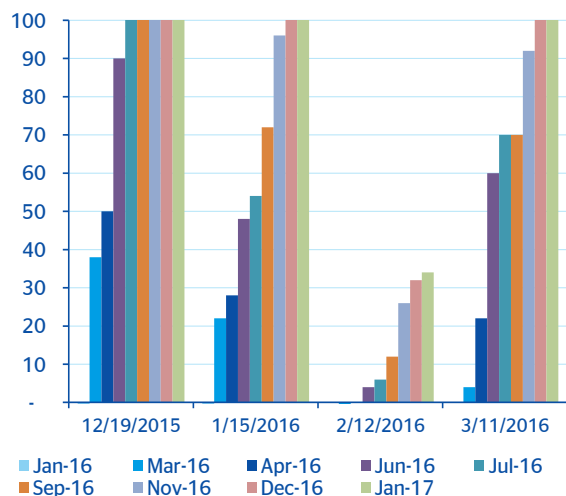
Low Inflation and Weak Global Economy Don't Warrant a March Rate Hike

Wednesday is the day to watch this week, with a Fed announcement as well as a wave of game-changing economic data for February. First and foremost is the **March FOMC meeting**, which we hope will provide some significant details on the future of Fed policy. While we do not expect another rate increase this month, we are likely to see some changes in the FOMC's economic projections. In particular, the Committee is likely to revise down their projected path of interest rates – probably to just three instead of four rate increases in 2016. Furthermore, Chair Yellen's press conference will likely touch on the latest developments in global financial markets and how much the ongoing volatility has really impacted the Fed's outlook. She is also likely to provide some commentary on other lingering concerns such as inflation and negative interest rates. Inflation is expected to continue moving slowly in support of the Fed's target, with **February's CPI report** projected to show monthly gains for both the headline and core figures. As always, it is important to remember that core CPI typically runs about 0.5% higher than core PCE inflation (the Fed's preferred measure), which currently sits just below 1.7%.

Industrial Production and Housing Starts Supporting Modest Growth in 1Q16

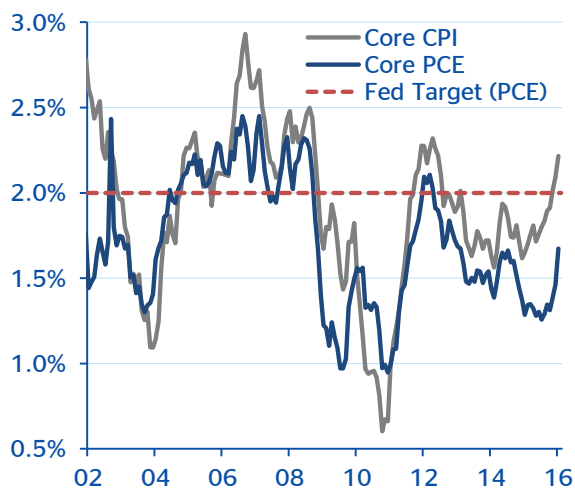
Other economic news on Wednesday include **industrial production** and **housing starts** for February. Industrial production is coming off an unusually strong showing to start the year following three consecutive months of decline. However, the drastic gains seen in utilities and manufacturing output are unlikely to be repeated again in February. Housing starts, on the other hand, are expected to reverse the negative trend of the previous two months and increase back near levels seen in late 2015. Continued positive momentum in both indicators will help encourage a more positive economic outlook among FOMC members.

Graph 1
Federal Funds Rate Futures Implied Probabilities (2nd 25bp rate increase, %)



Source: Bloomberg & BBVA Research

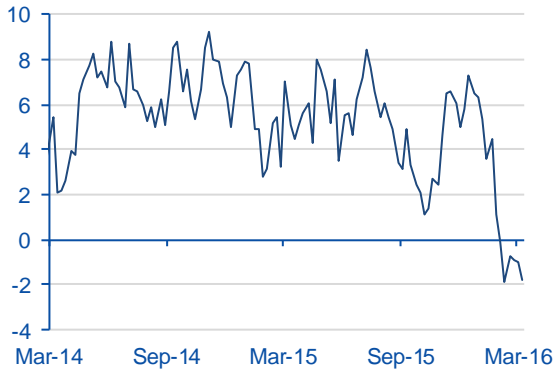
Graph 2
Core CPI and PCE Inflation (YoY % Change)



Source: BLS, BEA, & BBVA Research

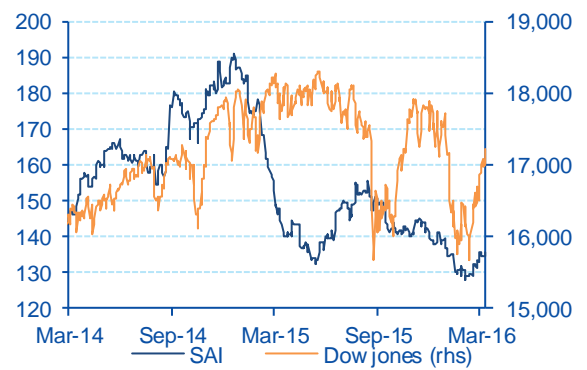
Economic Trends

Graph 3
BBVA USA Weekly Activity Index (3 month % change)



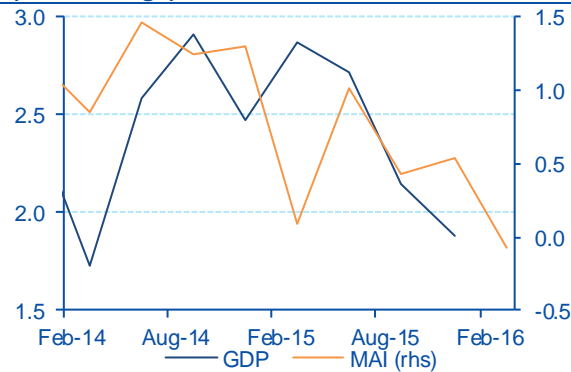
Source: BBVA Research

Graph 4
BBVA USA Surprise Activity Index & Dow Jones (Index 2009=100 & eop)



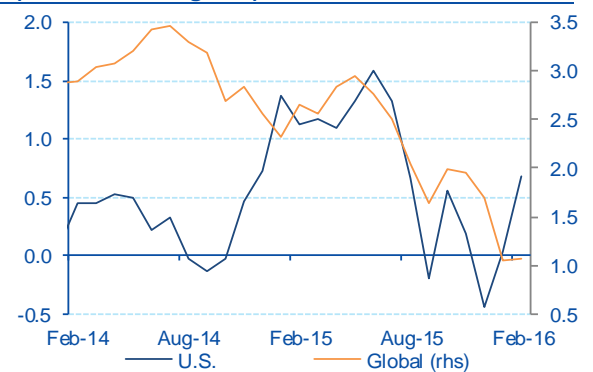
Source: Bloomberg & BBVA Research

Graph 5
BBVA USA Monthly Activity Index & Real GDP (4Q % change)



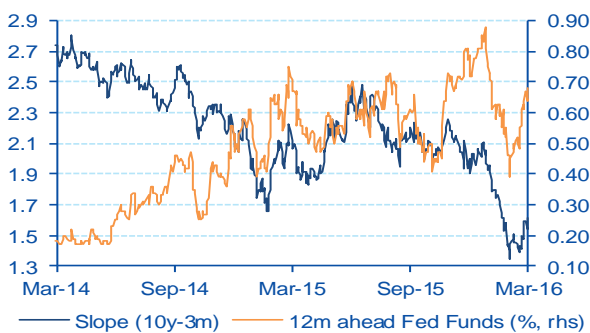
Source: BBVA Research & BEA

Graph 6
BBVA USA Risk Index (> 0 = increasing risk)



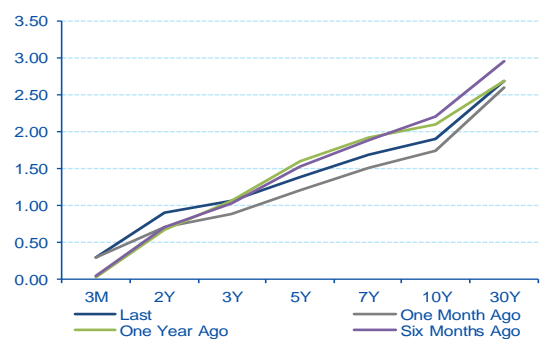
Source: BBVA Research

Graph 7
Fed Futures & Yield Curve Slope (% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 8
U.S. Treasury Yield Curve (% p.a.)



Source: Haver Analytics & BBVA Research

Week Ahead Economic Calendar

Date	Event	Period	BBVA	Consensus	Previous
15-Mar	US Empire State Manufacturing Survey General Business Conditions SA	MAR	-9.50	-11.50	-16.64
15-Mar	US PPI Final Demand MoM SA	FEB	0.10	-0.20	0.10
15-Mar	US PPI Final Demand Less Foods and Energy MoM SA	FEB	0.20	0.10	0.40
15-Mar	Adjusted Retail & Food Services Sales SA Total Monthly % Change	FEB	0.20	-0.10	0.20
15-Mar	Adjusted Retail Sales Less Autos and Gas Stations SA MoM Percent Change	FEB	0.30	0.20	0.40
15-Mar	National Association of Home Builders Market Index SA	MAR	59.00	59.00	58.00
15-Mar	US Manufacturing & Trade Inventories Total MoM SA	JAN	0.20	0.00	0.10
16-Mar	US New Privately Owned Housing Units Started by Structure Total SAAR	FEB	1166.00	1150.00	1099.00
16-Mar	Private Housing Units Started by Structure Total Monthly % Change SA	FEB	6.10	4.64	-3.80
16-Mar	Private Housing Authorized by Bldg Permits by Type Total SAAR	FEB	1220.00	1200.00	1202.00
16-Mar	Private Total Housing Authorized by Building Permits MoM SA	FEB	1.50	-0.17	0.00
16-Mar	US CPI Urban Consumers MoM SA	FEB	0.10	-0.20	0.00
16-Mar	US CPI Urban Consumers Less Food & Energy MoM SA	FEB	0.20	0.20	0.30
16-Mar	US Industrial Production MoM SA	FEB	0.10	-0.30	0.92
16-Mar	US Capacity Utilization % of Total Capacity SA	FEB	77.20	76.85	77.08
16-Mar	US Industrial Production Industry Groups Manufacturing MoM SA	FEB	0.00	0.10	0.50
16-Mar	Federal Funds Target Rate - Upper Bound	MAR 16	0.50	0.50	0.50
17-Mar	US Initial Jobless Claims SA	MAR 12	265.00	266.00	259.00
17-Mar	US Continuing Jobless Claims SA	MAR 5	2240.00	2230.00	2225.00
17-Mar	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	MAR	-3.10	-1.65	-2.80
17-Mar	Conference Board US Leading Index MoM	FEB	0.20	0.20	-0.20
17-Mar	US Job Openings By Industry Total SA	JAN	5650.00	5550.00	5607.00
18-Mar	University of Michigan Consumer Sentiment Index	MAR P	92.20	92.20	91.70

Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	1.0	1.7	3.8	2.4	2.4	2.5	2.4
CPI (YoY %)	0.1	0.5	1.1	1.1	1.6	0.1	1.3	1.9
CPI Core (YoY %)	1.8	2.0	2.1	2.1	1.7	1.8	2.0	1.9
Unemployment Rate (%)	5.2	5.0	4.9	4.9	6.2	5.3	4.8	4.6
Fed Target Rate (eop, %)	0.25	0.50	0.50	0.75	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.17	2.24	2.09	2.17	2.21	2.24	2.32	2.88
US Dollar/ Euro (eop)	1.12	1.09	1.09	1.05	1.23	1.09	1.10	1.16
Core Logic Home Prices (YoY %)	5.01	5.31	5.53	5.53	7.70	4.98	4.79	4.22

Fun Fact

An employee of Brinks, the armored transport company, was charged with stealing from the Federal Reserve Bank of Atlanta. He stole \$196,000 in quarters (approximately 784,000 coins). (WSJ, March 2016)

Recent Publications

[Initial Claims Decrease, Adding to Positive February Employment News](#) (March 10, 2016)

[Mortgage Applications Rise in Early March](#) (March 9, 2016)

[Small Business Optimism Decreases in February](#) (March 8, 2016)

[Consumer Credit Growth Slows Further in January](#) (March 7, 2016)

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